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Retailing, the Economy, and the Energy Crisis

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This has been a winter of discontent for the nation's retailers. Fuel shortages have compounded the worst inflation in a quarter century.

Faced with an uncertain economy and an energy crunch, what are retailers thinking and doing? They are steering a course between Scylla and Charybdis. This round-up of opinion, drawn from all sectors of the industry, reveals the scope of their dilemma.

Arthur F. Burns, Federal Reserve Board chairman, offers one benchmark. As he sees it, the current slowdown "does not appear to have the characteristics of a typical business recession." Industrial production may fall and unemployment may rise, he suggests, but neither will be "pervasive or of extended duration."

Retailers themselves are not pessimistic. Their attitude may be summed up by Thomas M. Macioce, president, Allied Stores Corporation: "We cannot accept the pessimistic point of view that sales and earnings must decline during the spring season. The so-called energy crisis will provide greater opportunities for increased sales in downtown locations and greater sales in concentrated periods as people move toward one-stop shopping.

"The crucial question is not what effect the consumer will have on the economy, but, rather, what will people like ourselves, who manage and direct sales, do to insure that the consumer utilizes the purchasing power that is available to keep our economy on a sound basis."

Or, in the words of Philip M. Hawley, president, Broadway-Hale Stores: "We want no part of pessimism, which can become a self-fulfilling prophecy unless we ward it off."

The consensus is that an unstable business climate will continue for the first half of the year and, considering the inflation bite, result in at best flat sales for that period. However, assuming (1) an improvement in the energy problem, (2) an upturn in business conditions, and (3) a growth in the rate of employment, the industry expects increases in retail volume for the year as a whole. Conceivably, retailers may do as well in 1974 as they did in 1973.

Conditions in retailing differ substantially, of course, depending on the type of retailer and the particular merchandise and services offered. As William M. Batten, chairman, J.C. Penney Co., says, "If consumers spend less for cars and new homes, it is entirely possible general merchandise retailing will do well even if people have no greater purchasing power."

On February 1, the Cost of Living Council brightened the picture somewhat, when it exempted the general merchandise retail industry from economic stabilization controls, although still keeping a string on the industry through profit margin reporting and promises by large chains to limit profit increases. This action was hailed by retailers previously under the restrictions of Phase IV.

It remains to be seen, however, whether consumers will accept the inevitable sharp price increases in the necessities of life. Apparel, for example, may exceed the 7.5 to 8 percent general inflation rate. What will consumers do then? Will they buy a smaller number of items in their normal price brackets, or will they turn to lower price lines? Will retailers, then, trade down to maintain unit sales and profit margins? No one can now say for sure what will happen.

Chairman Milton E. Mermelstein of New York's specialty department store chain, Alexanders, observes: "In an inflationary economy, people have priorities. First, they must eat and pay their rent. They may not buy automobiles and heavy appliances, but they will buy apparel and other soft goods."

The energy crisis compounded the economic and inflationary problems this winter. At this year's annual convention of the National Retail Merchants Association, Duke R. Ligon, Federal Energy Office Deputy Administrator, asked for greater evidence of well-thought-out plans for conserving the consumption of fuel oil, gas, and electricity. He made it clear stepped-up voluntary efforts are necessary if retailers expect the government to avoid "harsher" mandatory controls.

Under Secretary of Commerce John K. Tabor told the N.R.M.A. board of directors that "the national energy policy is to insulate the productive sector from the shortage and absorb the shortage on the consumer side of our economy. In short, whether the energy shortage means recession or a slightly more invigorated economy in the summer and fall of 1974 is still very much up to the people of this country."

Where is the energy crisis taking us? How long will it last? Ralph Lazarus, Federated Department Stores chairman, believes it will continue to some degree for a long period, perhaps eight years. He recommends that stores adjust their hours of operations according to their particular location, customers, and traffic pattern.

Already, consumers are changing their buying habits because of the shortage of gas and/or its higher price. They are using their automobiles less frequently for shopping-center trips, and making increasing use of mail and phone orders. General merchandise catalog-retail chains report the pace of mail and telephone selling in February ahead of activity in their stores. Richard L. Abbott, vice president and manager of the New York office of Montgomery Ward, asserts, "The energy crisis is good for the catalog business."

On the other hand, Richard G. Shapiro, president, Gimbel Bros., comments on his chain's outlook in the light of a poor earnings report for the first quarter ended December 31, 1973: "Unless we find some gas, the situation cannot improve. Suburban stores are being hit very badly, especially those further away from towns. While our downtown stores are doing better business, they do not make up for the loss of sales in out-of-town stores."

Most retailers believe women will continue to prefer to shop in person, but that even when gas is more available they will keep on using such means as car pools to offset higher gasoline prices. They are expected to favor one-stop shopping centers, whether in the central city or in the suburbs, and to spend their money in stores that stock a wide choice of merchandise.

Robert T. Sakowitz, executive vice president, Sakowitz, Texas-Arizona specialty store chain, says his company is prepared for more shopping by mail or phone. At the same time, Sakowitz advises that indepth stocks are more important than ever for those who drive to stores.

Walter A. Couper, Federated vice president and economist, agrees that if the gas shortage continues, there will be a rise in mail and phone business. He also concurs that those who do visit stores will be more likely to be buying than looking, will be more insistent on quality, and will expect better service from sales help. "If shoppers make fewer trips to the store, they will want to get it right the first time," Couper counsels.

Retailers throughout the nation are responding to the call for voluntary action to save energy. They are reducing hours, restricting exterior and interior lighting, lowering thermostats, initiating energy-saving contests, and designating energy wardens in their stores. They are cutting the demonstration of appliances and encouraging customers to carry home their purchases.

Because the energy crisis gripped the Northwest a little earlier than the rest of the country, Meier & Frank, Portland, reports it was already in high gear when the problem became a national one. The steps in electrical, fuel oil, and gasoline conservation, adopted in late summer of 1973, have resulted in an average reduction, without interrupting business, of more than 20 percent, for a three-and-one-half-month period.

At Ward's corporate headquarters in Chicago, thermostats were turned down to 69 degrees from 72 degrees. Four thousand of 28,000 bulbs have been removed from light fixtures. In the stores, air-conditioners may be set no lower than 75 degrees, and heating plants no higher than 68 degrees in sales areas and 60 degrees in stock areas. Air-conditioning units are programmed to shut off at closing time and start up two hours before opening.

Rich's in Atlanta has reduced lighting by over half a million watts. The company has established a telephone network connecting a central computer facility to remote terminals at each of the 15 branches. From the terminal, it has installed small-gauge wire cabling to major electrical apparatus, resulting in conservation of energy as well as significant dollar savings.

Younker's in Iowa instituted shorter hours--noon to 9, six days a week, through the winter months in about 20 suburban stores. It also suspended late Monday and Friday hours in two downtown stores.

Retailers are heartened by an assurance by F.E.O. Administrator William E. Simon that the Nixon Administration has no intention of interfering with operating hours of any type of business as an energy-conservation measure. Simon stresses that the thrust of federal energy programs will be to save jobs and avoid economic dislocations. Federal action to reduce business hours, he adds, would be considered "only if the situation becomes critical, and I do not think it's going to get critical."

Last December, Los Angeles retailers engaged in a running battle with that city's Department of Water and Power, which proposed a mandatory 50-hour work week in an effort to save at least 25 percent in power use. The retailers, who had already effected heat and light curbs, claimed a 50-hour week would result in a high reduction in employment and only a small reduction in energy. After some discussion, the City Council compromised on mandatory power cuts of from 10 to 33 percent, depending on the availability of fuel supplies.

Will Sunday openings be affected by the energy crisis? Federated's Ralph Lazarus has noted that "we sell more merchandise per square foot of space on Sunday than on any other day of the week, and more people per car shop on Sunday than on any other day of the week." On the other hand, many women's and men's wear retailers, and other owners of smaller stores, favor emergency legislation to restrict all merchants, except food, drug, and other essential-service establishments, to nine hours a day, six days a week, with mandatory Sunday closing as an energy-saving measure.

Alexander's Mermelstein would like to use the urgencies of the energy crisis to help solve the legal and extra-legal inequities of Sunday openings throughout the country. He suggests that an executive order be issued that would compel all except essential-service stores to shut down on Sunday for the remainder of the emergency. Small stores that close on another day for religious observance would be exempt. Through one fell swoop, he submits, consumers would use less gasoline, and retailers would use less light and heat. "Retailers might find they are making more money in six days than in a seven-day week. They may then decide to keep closed even after the emergency is over."

Alexander's five stores in four boroughs of New York City were opened on the Sunday before Washington's Birthday. Mermelstein said the opening exposed the fallacy of a state Sunday law "without teeth in it. All the stores, except the essential-service retailers, should be closed or all permitted to remain open." The company paid $10 fines for each of four stores given summonses.

Because mass public transportation to mid-Manhattan is readily available to residents of Long Island, northern New Jersey, and Connecticut, it stimulated shopping in New York stores during the gasoline shortage. But the retail renaissance of downtown areas in all sections of the country cannot be left to chance, retailers agree. Federal, state, and municipal governments must combine forces to make the city a better place to live in, to work in, to do business in - and for entertainment and cultural activities.

Suburban centers managed to do fairly well this winter in those areas where gas shortages were not pronounced. More recently, the introduction of mandatory gas allocation in a number of states and the increasing availability of gasoline has improved suburban retail business in general. However, the impact of buying habits, if not on sales volume, is still significant.

A New York Times survey reported that nighttime shopping was drastically down this winter in city stores and suburban stores everywhere. Where the fuel shortage was not severe, such as in the Midwest, more shopping during daylight hours and increased use of car pooling helped to offset any losses in store traffic. In other words, the smaller number of day-to-day visitors was compensated by a higher percentage of actual transactions per customer.

What is the future of shopping centers? Some developers are speeding up their building of new centers this year in order to beat a January 1, 1975, deadline, when the US Environmental Protection Agency will begin reviewing shopping center plans to minimize pollution caused by heavy automobile traffic. However, many stores are postponing building branches or signing leases and, instead, are remodeling existing premises.

Much of the foregoing is in the area of the imponderable. As always, the most mystifying factor is the consumer. Today's consumer is better informed, more selective, more demanding, more mobile. Moreover, different consumers have differing definitions of value. There is no substitute for those who equate value with style, quality, variety, and service. For these customers, department, general merchandise, and specialty stores are the choice. If, on the other hand, their idea of value is based on price, the discounter is their first choice. Today's diversification of discounters includes catalog showrooms, home improvement centers, and furniture-warehouse and appliance-warehouse showrooms. The game being stalked by all kinds of retailers is the changing consumer - who belongs to a different breed from that of previous generations.

Many people today are not in a buoyant buying mood. They are skeptical about the government, doubtful about job security and future income. The missing quotient is public confidence. Restoration of this confidence is as much a task for retailers as for any other group of businessmen. ▵